

University of Mississippi eGrove

Haskins and Sells Publications

Deloitte Collection

1976

Falcon Forecast: A Better way to serve clients

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

H&S Reports, Vol. 13, (1976 autumn), p. 22-27

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

'... FALCON/
FORECAST is
making a significant
contribution to our
overall practice-
development effort.'

During the past twelve months, practice offices throughout the Firm have taken at least seventy-five new FALCON and FORECAST engagements on the strength of about two hundred presentations. This is the result of an effort launched last fall to introduce our computer services, particularly the FALCON/FORECAST system, to potential users across the country. Coordinated by EO partners Jule Phoenix, Al Pastino and Paul Stevens, the program offers companies computer-based tools which can help them plan for the future and make more profitable business decisions.

H&S has worked with clients on financial planning and reporting almost since the inception of the Firm. Of course, early financial information systems were all manual. Several years ago, however, we began exploring computer-based solutions for clients' problems. During this process and during routine audit work, we reached certain conclusions that eventually led to the development of the FALCON/FORECAST system as well as other computer services.

The idea for FALCON (which stands for Financial Consolidation and Reporting) was the inspiration of Paul Stevens, who is based in Los Angeles. He, Los Angeles manager Barbara Harvey and former manager Ken Bitticks were largely responsible for beginning its development early in 1970.

In talking with clients in the Los Angeles area to learn how they were handling their financial-reporting requirements and what they would find useful, Paul realized that company executives needed a generalized system of computer programs that was highly flexible—one that could produce financial and operating reports quickly and efficiently at departmental, divisional or corporate levels and one that could be changed without difficulty, responding to management's needs as a company regrouped or added subsidiaries or more product lines. He believed there was a real demand for a system that (1) could be operated easily by financial personnel with no particular computer expertise, (2) required no heavy investment in computer programming or hardware and (3) contained automatic controls to maintain accounting integrity. Once this approach was established, Paul, Barbara and Ken began work on the project.

The Financial Consolidation and Reporting System that resulted uses the General Electric Mark III network. Information can be entered directly into the computer system from more than 300 cities in the United States and from major locations in Canada, Europe, Japan and Australia. All that is needed to operate the system is a computer terminal. The user can enter data, give instructions and call for reports by typing commands in English, and no computer programming is required.

FALCON was designed to provide valuable management information from basic accounting and statistical data and to ensure that a company's accounting and financial personnel can be easily trained by H&S to operate it themselves. In addition, the system was designed to be flexible enough to be changed by accountants. This accounting orientation provides numerous automatic-control features, such as a record of all adjustment and elimination entries as an audit trail, which help assure the accuracy of information and speed the availability of dependable, customized management reports.

FALCON automatically consolidates historical, budgeted and projected data entered into the system from a company's various reporting locations. It can handle a consolidation of virtually any size at any level within the business structure. Thus, the system can serve a wide range of companies, both large and small, in a variety of industries. FALCON performs consolidations so efficiently that this task can be done routinely on a monthly basis.

The final products of our Financial Consolidation and Reporting System are the analytical and management reports—these are produced easily, and rapidly. (A report format generally requires just a few hours to code.) These statements can be prepared with different levels of detail, and executives can design their own, specifying the content, format and calculations they want. Typical of these are balance sheets; income and retained-earnings statements and statements of changes in financial position or operating data; reports comparing present financial and operating data with those of prior periods or comparing information for different companies, market areas or product lines; quarterly reports to stockholders; and special reports analyzing items such as earnings per share, depreciation, investment or inventory.

A Better Way To Serve Clients

Once basic information for either reporting or consolidating had been entered into the computer, it was possible to use the same FALCON data base for financial forecasts and projections. Thus, the Firm developed its first version of FORECAST early in 1973. Paul Stevens and Ken Bitticks developed the unique concept of using conventional double-entry bookkeeping theory in a computerized accounting language. Managers Ed Morrill of Los Angeles and Paul Prager of Tokyo were largely responsible for bringing the concept to reality through their systems-design and programming efforts.

At about the same time that the Los Angeles team was putting together its first version of FORECAST, the New York MAS group was in the preliminary stages of designing a model for a utility company. (A model of this type is generally composed of sets of assumptions and data, usually in quantitative terms, that describe the conditions of a business—why it is where it is, how it got there and how it reacts to a variety of stimuli.) “This was a very timely development for us,” Paul says. “The New York people were contemplating a much larger model than our first FORECAST could have handled. Collaborating with them, we enlarged some of our original concepts. The outcome was a system with a great deal more flexibility than we might have had the foresight to include otherwise.”

Because FORECAST is really a companion system of FALCON, it incorporates the same features—reliability, accuracy, speed, flexibility and ease of operation. Just as with FALCON, the Financial FORECASTing and Reporting System does not require highly technical and expensive programming. It can be used by a financial manager with no computer background after a few days of instruction.

FORECAST has extensive “what-if” capabilities and can project information by week, month, quarter, year or any other basis for up to 120 periods. Even a very complicated model can be modified with new data in only a matter of minutes. These projections can help a company determine financing alternatives, plan future capital expenditures, make analyses for possible mergers and acquisitions and test the potential success of new product lines. “FORECAST allows a company’s management to evaluate the effects of decisions without actually having to make them,” Paul Stevens explains. “It is used not so much to predict what will happen as to predict what might happen if certain assumptions came to pass.”

‘... We have developed a system for solving problems and increasing client profitability.’

One other characteristic of the FALCON/FORECAST system that has gone far to make it popular with clients is its economy. The costs of installation and operation are a fraction of those that a company would bear if it chose to develop its own computerized management planning system. The substantial investment in professional staff time and computer expenses incurred by the Firm to develop FALCON/FORECAST is spread among our many users, so that any one client pays for only a small fraction of that cost.

In addition to FALCON/FORECAST, the Firm, of course, offers many other computer services. Some, like Auditape, were developed primarily for our own application, although they and others—like those for calculating life-insurance reserves and earnings per share and for solving problems involving the time value of money—have a definite value for outside companies. These and FALCON/FORECAST have been made available to both clients and nonclients by practice offices ever since they were developed.

Monogram Industries, a client of our Los Angeles office, was one of the first companies to adopt FALCON. Its early application, made with the original version of FALCON, was almost a field test. Monogram has now used FALCON for more than four years to prepare the annual tax consolidations and to generate an increasing number of management reports for its forty-six companies.

Shortly after we implemented FALCON for Monogram, Signal Companies became a user. With the assistance of Los Angeles partner Bill Gerecke, Signal began consolidating financial information for seven companies monthly and sixty annually. This client conglomerate presently employs our system to prepare a large quantity of highly sophisticated management reports. We also helped Mack Trucks, one of its subsidiaries, develop a financial model to project sales and costs under varying assumptions.

As the number of computer-services applications grew, it became apparent that a Firmwide effort for coordinating them was warranted. Jule Phoenix, H&S partner in charge of practice development, was appointed national marketing director. Among his responsibilities in this capacity are carrying out practice-furtherance objectives, establishing priorities for the practice-furtherance effort, directing the overall program and reviewing and evaluating its success.

Paul Stevens and Al Pastino are the program's coordinators, handling many of the day-to-day marketing and technical activities in the practice offices. They assist offices in making presentations to interested companies and organizations, arrange training meetings both for our clients and for our own people, and establish liaison between our marketing and technical personnel.

Al became interested in FALCON/FORECAST when he was with our Boston office. He and Gene Fisher (a staff accountant who transferred last year from Boston to the EDP Development Department in EO) went to Los Angeles in 1974 for intensive study of the FALCON/FORECAST system. Then, with the unswerving support of Boston PIC J. McCarthy, they began presenting the program to clients.

In 1975 Gene worked with the Massachusetts Institute of Technology, instructing several professors of the Sloan School of Management in the operation of the system. In addition, H&S made a grant to MIT for the study of additional applications, the determination of criteria for evaluating financial models and investigation of how such models can be improved.

At a regional partners meeting in the spring of 1975, J. McCarthy offered Al Pastino's services to other offices, and Al soon found himself more and more involved. Impressed by his record, Jule requested his assistance when the marketing program got under way.

In addition to the EO-based group, there is a support team composed of people in the practice offices who have both marketing and technical expertise. These individuals help partners present our computer services to prospective users, conduct training seminars to acquaint people in the practice offices with the FALCON/FORECAST system and provide general assistance by preparing proposals for the larger engagements and offering any technical support needed.

Chicago manager Jan Grayson, a member of this support team who participated in the first FALCON/FORECAST training class held in the Los Angeles office in 1970, has been working with banks in the Midwest and West. He helped BancOhio Corporation, a bank holding company in Columbus, implement FALCON for ratio analysis and FORECAST as an annual profit-planning tool for its forty-two banks. After discussions between Jan and management of the United States National Bank of Oregon, H&S was asked to assist the bank with an analysis of the

feasibility of offering electronic funds-transfer services to its customers. (We have also developed a FORECAST model for this bank which tests alternative pricing, marketing and cost assumptions.) Working with partners Jerry Kolb and Lowell Pethley and manager Dale Arahod (all of the Chicago office), Jan was instrumental in our being engaged by First Federal of Chicago, the largest savings and loan association in Illinois, to assist in its use of FORECAST for an economic-feasibility study regarding its entry into the consumer-loan field.

Jan has not limited his work with FALCON/FORECAST to banks, however. He also played an important part in the decision of Deere & Company to adopt FALCON for monthly consolidations and reports for both its domestic and foreign operations.

Partner Peter Hoffman and manager Keith Schrupp, members of the support team in the New York office, were instrumental in our being asked by Starrett Housing Corporation, a longstanding client that builds high-rise apartments, to write a cash-flow FORECAST model for its \$1.5 billion condominium-construction project in Tehran, Iran. Peter, who is our audit partner for Starrett, took the engagement after Keith discussed the capabilities of the H&S system with the assistant treasurer and corporate controller. Keith designed the model, a very complex one that uses the full capacity of FORECAST and projects results over a ten-year period. More than forty forecasts have now been run, and these are continually updated to allow for changes in assumptions and comparison of forecasted results with actual. In addition to this application, the company used FALCON to perform the consolidation for the 1975 annual audit of Starrett and more than 100 subsidiaries.

Our FALCON/FORECAST program revolves in large part around the practice-office audit partner who has daily contact with clients. He works closely with the clients at all levels and is more aware of the intricacies of the company's administrative and financial systems, policies and procedures than an outside consulting firm might be. The audit partner can explore a client's requirements for computer services and make the initial contacts with the organization's executives. Among the types of assistance always available from EO are visual aids (such as 35-mm slides, flip charts and overhead slides), basic formats for procedures and industry brochures.

'FORECAST allows a company's management to evaluate the effects of decisions without actually having to make them.'



In October 1975 a seminar was held in EO to bring together H&S people who would be FALCON/FORECAST representatives for their offices. These individuals were trained to introduce the system to potential clients. Sessions were held to familiarize them with the key features and benefits of FALCON/FORECAST. The Firm's practice-development plan, including organization, goals and EO support of the practice offices, was also emphasized. The last day featured a workshop where those attending were able to try out the skills they had acquired.

The seminar proved so successful that another was held last August for different practice-office representatives. Although this meeting was similar in many ways to the 1975 sessions, it was designed to be somewhat more technical. Participants were actually shown how to implement a small FALCON/FORECAST system.

Even before the practice-development effort got into full swing, many organizations had already adopted FALCON/FORECAST applications. One of these was Hyponex, which was not previously a client. A division of the Gillette Company specializing in products for plant care (plant food, pots and potting soil), this organization did not have a large accounting staff and was finding it difficult to generate reports in a timely fashion. Al Pastino and Boston staff accountant Jim Sukeforth were asked to make a proposal to help Hyponex develop an internal reporting system. We were selected over a number of software and consulting firms after a three-hour presentation.

Al and Jim spent about a week with the controller, discussing the structure of the reports, which were to be organized by department rather than consolidated. "Because the system is so flexible, we were able to give Hyponex exactly what it needed," Jim says. "And we gave it to them on a timely basis. For instance, we generate about fifty-five to sixty reports a month, with the information fed into the system on the third working day of each month. By the fifth working day, the reports are ready for the company's use."

Hyponex also took advantage of FORECAST, enabling the company to set up a five-year projection capability as well as to begin work on a departmental FORECAST model. With the assistance of former staff accountant Carol Wilk, Hyponex has now implemented this model, which updates income statements by department on a quarterly basis. According to Jim Sukeforth, all facets of the FALCON/FORECAST system are being used by the company, making this one of our most complex applications.

'...A unique concept of using conventional double-entry book-keeping theory in a computerized accounting language.'

"The record of results from the FALCON/FORECAST presentations made so far is good—and getting better all the time," Paul Stevens says. Among the larger clients who have requested FALCON or FORECAST within the past year are Data 100 Corporation and Hubbard Farms.

The Data 100 Corporation, a client of our Minneapolis office which has made more than \$100 million in sales of computer-terminal systems, asked us last March to assist in developing a financial model designed to project items such as income from and expense of leased equipment. Data 100 had been using its own computerized financial forecasting model. Working closely with the company while H&S was conducting a general audit, Bloomington PIC Lynn Odland realized that this model was not flexible enough for the company's needs; he saw that a great deal of manual time was being spent making changes in the model. Corporate management was also aware of deficiencies in its system and decided to interview H&S, one other accounting firm and six vendors.

Using Data 100's financial statements and projections for future years, Paul Stevens, Ed Morrill and others on the Los Angeles staff prepared a small model for the presentation. Company officials were favorably impressed, and we were engaged because they were convinced that our model was the most comprehensive and would provide them with the most flexible forecasting system possible.

H&S had provided audit services for Hubbard Farms, a New Hampshire poultry-breeding company with operations in eight European countries under the name of Hubbard Europa, before it was acquired by Merck & Co., the large pharmaceutical concern, in 1974. Partner Bill Wright and manager Tom Elliott, both with our Boston office, maintained contact with the financial director, and in late 1975 we were engaged to implement FALCON.

Hubbard was the first client to adopt the field-test version of our FALCON foreign-currency translation program. Using it, the company feeds data in the eight currencies of its foreign subsidiaries into the system; monthly consolidated financial reports are generated with figures given in both U.S. dollars and the foreign currencies, allowing management in any of the locations to compare results at a glance. Former Los Angeles manager Richard Janssen wrote the conversion program for the new application, and Jim Sukeforth trained people from New Hampshire and the European divisions in its use.

The program has been in effect for about nine months at the company and is now being run successfully by Hubbard's own people. In a letter to Costas Nicolaides (who was partner in charge of the engagement before he transferred from Boston to Baltimore last July), the financial director wrote: "I certainly appreciate the cooperation extended by Haskins & Sells in developing what I think is an excellent program for the conversion of foreign currencies into U.S. dollars and in conformance with generally accepted accounting principles. I believe some of the principles incorporated in the Hubbard FALCON system would be very adaptable to most large multinational corporations."

Several other large companies have recently implemented the FALCON/FORECAST system. Among them are Cox Broadcasting Corporation in Atlanta, a radio and television broadcaster with subsidiaries in fields such as publishing and motion-picture production; Facet Enterprises, a Tulsa manufacturer of motor-vehicle parts and accessories; the Memorex Corporation, a San Francisco client; Morrison Incorporated, a Mobile client that operates cafeterias, restaurants and motels; Southland Financial Corporation, a Dallas client and a holding company doing business primarily in real estate and life insurance; and The Times Mirror Company in Los Angeles, not previously a client.

"Interest continues to grow in the H&S FALCON/FORECAST system," Jule Phoenix says, "and several organizations have asked us to speak to them about it. Al Pastino and Paul Stevens have addressed the Comptroller of the Currency's regional bank examiners; the Columbus, Dayton, New York, St. Louis and South Jersey chapters of the National Association of Accountants; Financial Executives Institute chapter meetings; and representatives from General Electric."

"These presentations have been well received," Jule continues. "After Paul spoke on financial-planning models at an FEI luncheon attended by thirty executives from various industries in the San Jose area, direct inquiries were made to the Firm by three different businesses that had been represented at the meeting. It is clear that FALCON/FORECAST is making a significant contribution to our overall practice-development effort."

'Because the system is so flexible, we were able to give Hyponex exactly what it needed.'

The U.S. practice-development effort has also caught on in our offices overseas. In the United Kingdom DH&S has taken several new engagements on the basis of FALCON/FORECAST presentations.

Last spring, London manager Dudley Nigg conducted a training meeting for representatives from the DH&S European offices, and there are now FALCON/FORECAST specialists in our offices in Brussels, Geneva, Madrid, Milan, Paris and Zurich. A customer information desk, set up in London to answer questions about the system, serves offices in both Europe and the United Kingdom.

In Japan, Paul Prager is introducing FALCON/FORECAST to some of the large trading companies with worldwide operations. A recent Japanese regulation requiring that all companies consolidate their semiannual reports has made the presentation of our system there very timely. Komatsu, Mitsubishi and Mitsui are already using FALCON for this purpose. Last April, DH&S Canada launched an intensive campaign to familiarize its clients with FALCON/FORECAST. At least twenty presentations have already been made there and several engagements taken. Toronto manager Jerry Bullock is coordinating this practice-development effort.

"Response to the presentations that have been made both in the United States and abroad has been very positive," Jule Phoenix comments. "As the FALCON/FORECAST program continues to expand, H&S has the opportunity to provide better service by offering efficient methods for producing timely consolidated financial information and projected financial data. The Firm is in a position to say to our clients: 'Because we understand the nature of your business and some of the difficulties you face in the effective running of it, we have developed a system for your use in solving these problems and increasing your profitability. And we are able to back up this system with our expertise as professional accountants. We can provide the technical skills and experience of our people to train client personnel and assist them with installation and maintenance, ensuring the most comprehensive service possible.'"

Innovative and progressive programs like FALCON/FORECAST, presented by those with the knowledge and capability to follow through in implementation and refinement, play an important role in helping a company do business efficiently. In a world that realizes more and more the worth of the computer in reducing the time needed to perform a function and maximizing the value of available data, Haskins & Sells is in the vanguard of those who serve the business community. ○